



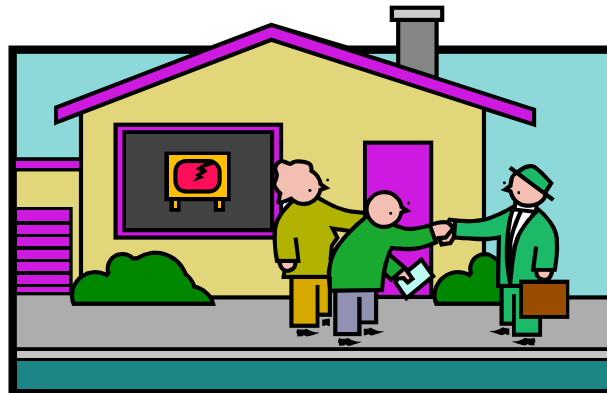
BUILDING HOME

Homebuyer Activities



Homebuyer Activities

- This chapter covers:
 - ◆ Eligible activities and forms of assistance
 - ◆ Eligible applicants and properties
 - ◆ Long-term affordability
 - ◆ Program design/implementation issues



Eligible Activities



- HOME can be used for:
 - ◆ Acquisition
 - ◆ Acquisition/rehabilitation
 - ◆ New construction
 - ◆ Lease-purchase if conveyed within:
 - 36 months of signing OR
 - 42 months of project completion



Eligible Activities



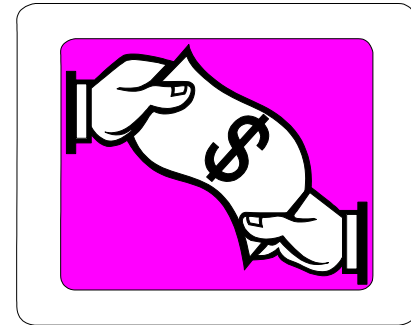
- Conversion of HOME rental units to homeowner units
 - ◆ If additional HOME funds → set affordability period by amount of direct assistance
 - ◆ If no additional funds → minimum affordability of original rental units



Forms of Assistance



- PJs generally use:
 - ◆ Grants
 - ◆ Deferred payment loans
 - ◆ Below-market rate loans
 - ◆ Loan guarantees



Forms of Assistance



■ HOME can be used for:

- ◆ Financial assistance
- ◆ Development/construction assistance
- ◆ Both



■ Financial assistance includes:

- ◆ Downpayment/closing costs
- ◆ Gap financing
- ◆ Guarantees



Eligible Costs



- Hard costs:
 - ◆ Acquisition
 - ◆ Site preparation or demolition
 - ◆ Construction
- Soft costs:
 - ◆ Fees and appraisals
 - ◆ Homebuyer counseling
- Relocation Costs





Nonprofit & CHDO Roles

- Nonprofits can:
 - ◆ Manage a homebuyer program as a subrecipient
 - ◆ Play a limited administrative role
 - ◆ Provide counseling
- CHDOs serve as developer or sponsor of a project

Eligible Properties



- Eligible property types:
 - ◆ Single-family home
 - ◆ Two-to-four unit property
 - ◆ Condominium unit
 - ◆ Coop or mutual housing unit (if recognized as ownership by state)
 - ◆ Manufactured home

Maximum Property Value



- If acquisition only,
 - ◆ **Sales price** cannot exceed 95% of the median area purchase price
- If acquisition and rehab,
 - ◆ **After-rehab value** cannot exceed 95% of the median area purchase price
- 95% limit may be established by PJ or use HUD limits

Property Standards - Acquisition



- If acquisition only,
 - ◆ state/local housing standards and codes
 - ◆ If no state/local standards, then Section 8 HQS
 - ◆ House must be inspected
 - ◆ Must meet standards at time of occupancy



Property Standards - Acquisition and Rehab



- If acquisition and rehab
 - ◆ Written rehab standards, and
 - ◆ State/local code/standards
 - ◆ If no state/local code, meet a national code



Property Standards - Acquisition and Rehab



- Acquisition and rehab (cont.):
 - ◆ Inspect prior to occupancy
 - ◆ No health and safety defects
 - before occupancy, and
 - no later than 6 months after transfer
 - ◆ Meet applicable codes
 - at project completion, and
 - within 2 years of transfer



Property Standards - New Construction



- If new construction
 - ◆ State/local code and standards
 - ◆ If no state/local code, meet a national code
 - ◆ Also meet Model Energy Code



The Applicant



- Low-income
- Property will be principal residence
- Income eligibility determined
 - ◆ At purchase for existing housing
 - ◆ At contract signature for new construction
 - ◆ At signing of lease-purchase agreement

Income Eligibility

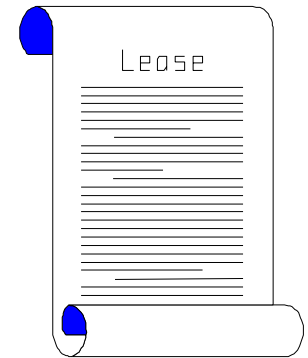


- To verify income:
 - ◆ Use one of the three income definitions
 - ◆ Review source documents
 - ◆ Project income for next 12 months
- Income verification good for six months

Forms of Ownership



- Types of ownership allowed:
 - ◆ Fee-simple ownership
 - ◆ 99-year leasehold
 - ◆ Condo ownership
 - ◆ Coop or mutual housing ownership/membership, if recognized by state law
 - ◆ Other forms must be HUD-approved

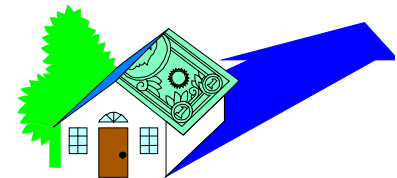


Long-Term Affordability



HOME \$	Affordability Pd.
< \$15,000	5 yrs.
\$15,000 - 40,000	10 yrs.
Over \$40,000	15 yrs.

- No requirements that:
 - ◆ PITI be affordable at purchase OR
 - ◆ PITI remain affordable over time





Recapture/Resale

- Compliance during the period of affordability:
 - ◆ Recapture
 - ◆ Resale



Recapture Provisions

- Recapture most like a conventional loan
- Buyer pays-back direct subsidy
 - ◆ Direct subsidy is
 - assistance that reduced purchase price from fair market value, and
 - direct assistance to the homebuyer (e.g., downpayment or closing cost assistance)
 - ◆ May sell to any willing buyer



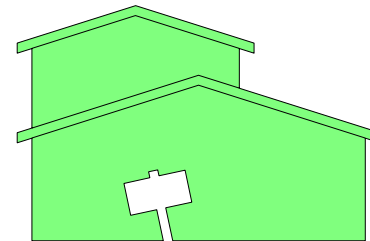
Recapture Provisions

- Recapture all or part of subsidy
 - ◆ May forgive portion
 - ◆ May share net proceeds
- Development subsidies NOT subject to recapture
 - ◆ If development subsidy only, must use resale provisions
- When no \$ subject to recapture must use resale provision
 - ◆ If development subsidy only

Resale Provisions



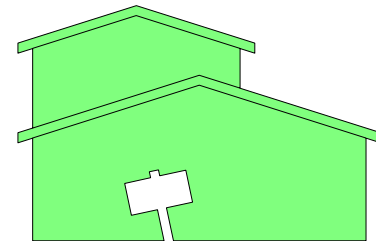
- With resale, when home is sold:
 - ◆ House must be affordable to new buyer
 - ◆ New buyer must be low income
 - ◆ New buyer must occupy house as principal residence
 - ◆ Original buyer must receive a “fair return”
 - ◆ Remaining resale restrictions apply to new buyer



Resale Provisions



- Presumption of affordability allowed
 - ◆ Concept
 - Homes are of modest value and will stay so
 - Homes are affordable to low-income buyers using conventional financing
 - ◆ Define neighborhood
 - ◆ Document with market analysis that is updated periodically

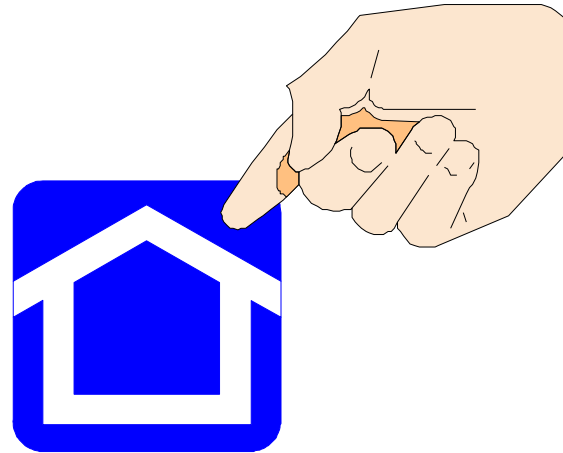


Enforcement



■ Enforce recapture/resale requirements with:

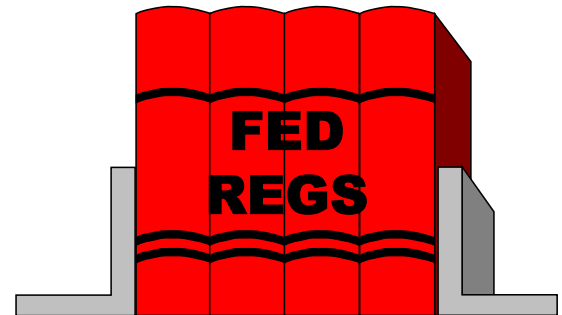
- ◆ Deed restriction
- ◆ Covenant
- ◆ Lien
- ◆ Others





Other Federal Requirements

- Other federal requirements may apply:
 - ◆ Fair Housing and equal opportunity
 - ◆ Affirmative marketing
 - ◆ Davis-Bacon labor standards
 - ◆ Flood insurance
 - ◆ Relocation
 - ◆ Lead-based paint



Program Design and Implementation



- Working with Private Lenders
- Selecting Resale or Recapture



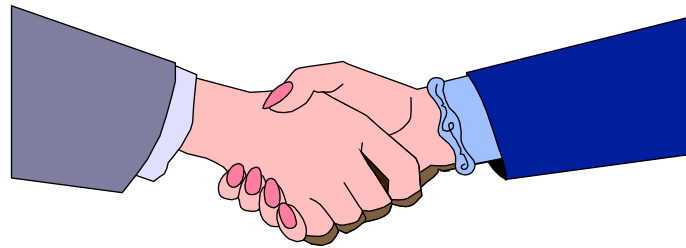
Working with Lenders

- Key Program Design Issues:
 - ◆ Identify the market
 - ◆ Keep program simple/easy to administer
 - ◆ Centralize key functions
 - ◆ Establish realistic goals
 - ◆ Decide type of relationship needed with lender

Relationships with Lenders



- Key areas of negotiation:
 - ◆ Loan origination and processing
 - ◆ Type of loans and terms
 - ◆ Volume and fees





Recapture or Resale?

■ Recapture:

- ◆ Allows maximum flexibility to PJ and owner
 - Resale at any price
 - Allows program income; PJ decides how much
 - Easier to administer
- ◆ Lenders prefer
- ◆ Cannot be used when:
 - No direct assistance
 - No assistance to be recaptured



Recapture or Resale?

■ Resale:

- ◆ Maintains affordable housing stock
- ◆ Best for appreciating neighborhoods
- ◆ Complicated for buyers
- ◆ More complex to administer

■ Presumption of affordability:

- ◆ Simplifies resale
- ◆ Must complete and update market analysis